

COUNTY OF LOUDOUN, VIRGINIA

Audit of Federal Awards Programs

Year Ended June 30, 2003

(With Independent Auditors' Reports Thereon)

COUNTY OF LOUDOUN, VIRGINIA

Audit of Federal Awards Programs

Year Ended June 30, 2003

Table of Contents

	Page
Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program, Internal Control over Compliance, and the Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133	3
Schedule of Expenditures of Federal Awards	5
Notes to Schedule of Expenditures of Federal Awards	10
Schedule of Findings and Questioned Costs	12



2001 M Street, NW
Washington, DC 20036

**Independent Auditors' Report on Compliance and on Internal Control
over Financial Reporting Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

The Board of Supervisors
County of Loudoun, Virginia:

We have audited the basic financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Loudoun, Virginia (the County), as of and for the year ended June 30, 2003, and have issued our report thereon dated December 11, 2003, which referred to the County's adoption of Governmental Accounting Standards Board Statement No. 39. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia (specifications).

Compliance

As part of obtaining reasonable assurance about whether the County's basic financial statements referred to above are free of material misstatement, we performed tests of the County's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Also, the Auditor of Public Accounts of the Commonwealth of Virginia requires us to test the County's compliance with certain matters specified in the Code of Virginia, including budget and appropriations laws; cash and investments; conflicts of interest; debt provisions; procurement; local retirement systems; unclaimed property; enhanced 911 service taxes; the Personal Property Tax Relief Act; intragovernmental revenues and agreements; inmate canteen and other auxiliary funds; and state agency requirements for education, State Route 28 highway transportation improvement district, Comprehensive Services Act funds, and social services. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* or the specifications.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. Material weaknesses are conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low





level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses.

However, we noted certain immaterial instances of noncompliance with laws, regulations, contracts, and grants, and other matters involving internal control over financial reporting, that we will report to County management in a separate letter.

This report is intended solely for the information and use of the Board of Supervisors, County management, the Auditor of Public Accounts, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 11, 2003



2001 M Street, NW
Washington, DC 20036

**Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program, Internal Control over Compliance, and the
Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133**

The Board of Supervisors
County of Loudoun, Virginia:

Compliance

We have audited the compliance of the County of Loudoun, Virginia (the County), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

As described below and in the accompanying schedule of findings and questioned costs as item 03-04, the County did not comply with certain cost principle requirements applicable to its Title I (CFDA No. 84.010) and Head Start (CFDA No. 93.600) major federal programs. Compliance with such requirements is necessary, in our opinion, for the County to comply with this requirement applicable to these major programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the County complied, in all material respects, with the requirements referred to in the first paragraph of this report that are applicable to each of its major federal programs for the year ended June 30, 2003. The results of our auditing procedures also disclosed another instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 03-01.





Internal Control over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the County's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 03-01 through 03-05.

A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable conditions identified above are not material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County as of and for the year ended June 30, 2003, and have issued our report thereon dated December 11, 2003, which referred to the County's adoption of Governmental Accounting Standards Board Statement No. 39. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Supervisors, County management, the Auditor of Public Accounts, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 11, 2003

COUNTY OF LOUDOUN, VIRGINIA
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2003

Federal Granting Agency/Pass-through Agency/Program	Federal Catalog Number	Total Federal Expenditures
<u>U.S. Department of Agriculture:</u>		
Pass-through Payments:		
State Department for the Aging:		
Nutrition Program for the Elderly	10.570	\$ 38,155
State Department of Agriculture:		
Food Distribution		
Noncash Commodities	10.555	706,943
State Department of Juvenile Justice:		
National School Lunch Program	10.555	25,594
State Department of Social Services:		
Matching Grants for Food Stamp Program	10.561	565,289
State Department of Education:		
School Breakfast Program	10.553	75,185
National School Lunch Program	10.555	1,528,049
Special Milk Program for Children	10.556	58,437
National Fish and Wildlife Foundation:		
Streams Report for Watershed Watch	10.000	25,000
Total U.S. Department of Agriculture		<u>3,022,652</u>
<u>U.S. Department of Housing and Urban Development:</u>		
Direct Payments:		
Transitional Housing Assistance	14.235	155,546
Section 8 – Housing Assistance Payments	14.856	4,546
Section 8 – Housing Assistance Payments	14.871	6,875,365
Pass-through Payments:		
Virginia Housing Development Authority:		
Housing Counseling Assistance	14.169	2,700
State Department of Housing and Community Development:		
Emergency Shelter	14.231	52,022
Home Investment Partnerships Program	14.239	(999)
Northern Virginia Planning District Commission:		
Housing Opportunities for Persons with AIDS	14.241	70,491
Total U.S. Department of Housing and Urban Development		<u>7,159,671</u>

(Continued)

COUNTY OF LOUDOUN, VIRGINIA

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2003

Federal Granting Agency/Pass-through Agency/Program	Federal Catalog Number	Total Federal Expenditures
<u>U.S. Department of Justice:</u>		
Direct Payments:		
Emergency Preparedness	16.580	\$ 2,525,166
LLE Block Grant	16.592	17,211
Public Safety Partnership and Community Policing Grants	16.710	209,078
Pass-through Payments:		
State Department of Criminal Justice Services:		
Juvenile Accountability Incentive Block Grant	16.523	46,579
Juvenile Justice and Delinquency Prevention	16.540	47,396
Title V Delinquency Prevention	16.548	38,389
Drug Control and System Improvement	16.579	98,952
Violence Against Women	16.588	16,541
LLE Block Grant	16.592	18,339
Total U.S. Department of Justice		<u>3,017,651</u>
<u>U.S. Department of Labor:</u>		
Pass-through Payments:		
State Department for the Aging:		
Senior Community Service Employment Program	17.235	12,268
State Department of Education:		
School-to-Work Transition Program	17.249	143,501
Total U.S. Department of Labor		<u>155,769</u>
<u>U.S. Department of Transportation, Federal Highway Administration:</u>		
Direct Payments:		
Federal Motor Carrier Safety	20.217	17,472
Pass-through Payments:		
State Department of Transportation:		
Highway Planning and Construction	20.205	254,694
State Department of Conservation and Recreation:		
Recreation Trails Program	20.219	24,494
State Department of Motor Vehicles:		
Child Passenger Protection (section 2003B)	20.000	500
State and Community Highway Safety	20.600	147,967
Total U.S. Department of Transportation		<u>445,127</u>

(Continued)

COUNTY OF LOUDOUN, VIRGINIA

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2003

Federal Granting Agency/Pass-through Agency/Program	Federal Catalog Number	Total Federal Expenditures
<u>National Endowment of Humanities:</u>		
Direct Payments:		
Promotion of the Humanities	45.164	\$ 10,480
Total National Endowment of Humanities		<u>10,480</u>
<u>U.S. Environmental Protection Agency:</u>		
Direct Payment:		
Wetland Program Development Grant	66.461	<u>7,807</u>
Total U.S. Environmental Protection Agency		<u>7,807</u>
<u>Federal Emergency Management Agency:</u>		
Pass-through Payments:		
State Department of Mental Health and Mental Retardation:		
Crisis Counseling ISP	83.516	438
State Department of Emergency Services:		
Emergency Management Preparedness Grant	83.552	<u>14,754</u>
Total Federal Emergency Management Agency		<u>15,192</u>
<u>U.S. Department of Education:</u>		
Direct Payments:		
Impacted Aid	84.041	90,446
Pass-through Payments:		
State Department of Mental Health and Mental Retardation:		
Handicapped Infants and Toddlers	84.181	194,359
State Department of Education:		
Adult Education – State-Administered Program	84.002	86,397
Title I – Educationally Deprived Children	84.010	1,041,997
Special Education – Grants to State	84.027	3,494,081
Vocational Education – Consumer and Homemaking	84.048	270,186
Special Education – Preschool	84.173	121,792
Drug-Free Schools and Communities	84.186	122,389
Eisenhower Professional Development State Grant	84.281	2,533
Innovative Education Program Strategies	84.298	109,636
Literacy Challenge Grant	84.318	(180)
Advanced-Placement Incentive Program	84.330	400
Title VI – Class Size Reduction	84.340	120,152
No Child Left Behind	84.365	<u>622,509</u>
Total U.S. Department of Education		<u>6,276,697</u>

(Continued)

COUNTY OF LOUDOUN, VIRGINIA

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2003

Federal Granting Agency/Pass-through Agency/Program	Federal Catalog Number	Total Federal Expenditures
<u>Consumer Product Safety Commission:</u>		
Direct Payments:		
Product Safety Testing	87.RD	\$ (4,430)
Total Consumer Product Safety Commission		(4,430)
<u>U.S. Department of Health and Human Services:</u>		
Direct Payments:		
Head Start	93.600	765,736
Administration for Children, Youth and Families	93.623	9,960
Pass-through Payments:		
State Department of Mental Health and Mental Retardation:		
Public Health and Social Services Emergency Fund	93.003	119,179
Projects for Assistance in Transition from Homeless (PATH)	93.150	29,473
Consolidated KD&A Program – VA State Incentive Project	93.230	63,751
TOPPS	93.238	1,250
Child Care Development Block Grant	93.575	18,383
Community Mental Health Services	93.958	14,532
Prevention and Treatment of Drug Abuse	93.959	429,406
Mental Health Disaster Assistance and Emergency	93.982	401,053
State Department for the Aging:		
Special Programs for the Aging – Title VII, Chapter 3 for Prevention of Elder Abuse, Neglect	93.041	698
Special Programs for the Aging – Title III, Part F	93.043	5,759
Special Programs for the Aging – Title III, Parts A and Grants for Supportive Services and Senior Centers	93.044	55,198
Title III, Part C – Nutrition Services	93.045	53,845
National Family Caregiver Support	93.052	21,842
Adoption Incentive Payments	93.603	4,901
Home Care Financing Research	93.779	9,289
State Department of Social Services:		
Foster Care – Title IV-E	93.658	938,060
Adoption Assistance	93.659	105,551
Child Care and Development	93.596	884,400
Promoting Safe and Stable Families	93.556	45,988
Child Care Assistance	93.575	681,438
Social Services Block Grant (Includes General Administration, Purchased Services, Day Care, and Preplacement/F.C.)	93.667	380,849
Low-Income Home Energy Assistance Refugee and Entrant Assistance	93.568	1,862

(Continued)

COUNTY OF LOUDOUN, VIRGINIA

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2003

Federal Granting Agency/Pass-through Agency/Program	Federal Catalog Number	Total Federal Expenditures
State-Administered Program	93.566	\$ 123,494
Independent Living	93.674	2,901
Medicaid Assistance	93.778	329,255
Temporary Assistance to Needy Families	93.558	384,693
State Department of Housing and Community Development:		
Child Care and Development Block Grant – Child Care for Homeless Children	93.575	<u>1,103</u>
Total U.S. Department of Health and Human Services		<u>5,883,849</u>
<u>U.S. – Corporation for National and Community Service:</u>		
Direct Payments:		
Retired Seniors' Volunteer Program	94.002	<u>28,274</u>
Total U.S. – Corporation for National and Community Service		<u>28,274</u>
Total		<u><u>\$ 26,018,739</u></u>

See accompanying notes to schedule of expenditures of federal awards.

COUNTY OF LOUDOUN, VIRGINIA

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2003

(1) Summary of Significant Accounting Policies

(a) *Reporting Entity*

The accompanying schedule of expenditures of federal awards (the Schedule) includes the activity of all federal award programs administered by the County of Loudoun, Virginia (the County), and its component unit, the Loudoun County Public Schools. The County's reporting entity is defined in note I (A) of the County's basic financial statements.

Federal award programs include direct expenditures, monies passed through to other governmental entities (i.e., payments to subrecipients), and nonmonetary assistance.

(b) *Basis of Presentation*

The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. Federal award program titles are reported as presented in the Catalog of Federal Domestic Assistance (CFDA).

(c) *Basis of Accounting*

The schedule has been prepared on the modified accrual basis of accounting as defined in note I (C) of the County's basic financial statements. The modified accrual basis of accounting incorporates an estimation approach to determine the amount of expenditures incurred if not yet billed by a vendor. Thus, those federal programs presenting negative amounts on the Schedule are the result of prior year estimates being overstated and/or reimbursements due back to the grantor.

(d) *Matching Costs*

Matching costs, the nonfederal share of certain program costs, are not included in the Schedule.

(2) Relationship to Federal Financial Reports

The regulation and guidelines governing the preparation of federal financial reports vary by federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the federal financial reports do not necessarily agree with the amounts reported in the accompanying Schedule, which is prepared on the basis explained in note 1(c).

(3) Non-Cash and Other Programs

Due to a change in policy at USDA and the Commonwealth of Virginia Department of Agriculture and Consumer Services, the value of USDA commodities remaining on hand at June 30, 2003 for CFDA number 10.555 is no longer required to be reported separately. Therefore, the amounts received are reported as federal expenditures in the accompanying Schedule.

COUNTY OF LOUDOUN, VIRGINIA

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2003

(4) Amounts Passed-Through to Subrecipients

During the year ended June 30, 2003, the County passed \$426,848 through to subrecipients for the Emergency Preparedness grant (CFDA No. 16.580). It was not practicable to determine amounts passed through to subrecipients for nonmajor programs.

COUNTY OF LOUDOUN, VIRGINIA
Schedule of Findings and Questioned Costs
Year Ended June 30, 2003

I. Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued on the financial statements: Unqualified

Internal control over financial reporting:

Material weakness identified? No

Reportable conditions identified that are not considered to be material weaknesses? None Reported

Noncompliance material to financial statements noted? No

Federal Awards:

Internal control over major programs:

Material weaknesses identified? No

Reportable conditions identified that are not considered to be material weaknesses? Yes

Major Programs with Reportable Conditions:

Type of report issued on compliance for major programs: Qualified

Any findings which are required to be reported under
Section .510(a) of OMB Circular A-133? Yes

Identification of major programs:

Grant Program	Federal CFDA Numbers
Child Nutrition Cluster	10.553, 10.555, 10.556
Emergency Preparedness	16.580
Title I – Educationally Deprived Children	84.010
Mental Health Disaster Assistance and Emergency	93.982
Head Start	93.600

Dollar threshold used to distinguish between Type A and Type B programs: \$780,562

Auditee qualified as a low-risk auditee? Yes

COUNTY OF LOUDOUN, VIRGINIA
Schedule of Findings and Questioned Costs
Year Ended June 30, 2003

II. Findings Related to Financial Statements

None Reported.

III. Findings Related to Federal Awards

Finding:

<u>No.</u>	<u>Program</u>	<u>Compliance requirement</u>	<u>Questioned costs</u>
03-01	Emergency Preparedness (16.580)	Reporting	None

Condition:

The County does not have a control in place to ensure compliance with the federal requirement stated in the grant agreement that a semiannual progress report should be submitted to the U.S. Department of Justice (DOJ) Bureau of Justice Assistance (BJA) within the required time frame. As a result, the County failed to submit the semiannual progress report for the period ended December 31, 2002. Further, the progress report for the period ended June 30, 2003 was prepared and submitted only after we brought the issue to the attention of the grant administrator.

Criteria:

The grant award document specifies that a progress report must be submitted to DOJ within 30 days after the end of the reporting periods, which are June 30 and December 31 for the life of the award.

Cause:

The grant administrator was aware of the requirement, but neglected to submit the report.

Effect:

Failure to have a control in place to ensure that the semiannual grant progress reports are submitted within the required time frame results in noncompliance with the grant agreement.

Recommendation:

We recommend the County implement a tickler system or other procedures to ensure compliance with the progress reporting requirement set forth in the grant agreement with DOJ.

COUNTY OF LOUDOUN, VIRGINIA
Schedule of Findings and Questioned Costs
Year Ended June 30, 2003

Finding:

<u>No.</u>	<u>Program</u>	<u>Compliance requirement</u>	<u>Questioned costs</u>
03-02	Emergency Preparedness (16.580)	Procurement, Suspension, and Debarment	None

Condition:

The County does not obtain certifications of suspension and debarment from vendors providing goods or services in excess of \$100,000, certifying that they are not suspended or debarred under federal regulations from providing such goods and services.

Criteria:

According to the Code of Federal Regulations, Title 7, Section 3016, nonfederal entities who receive federal awards are prohibited from contracting with parties that are suspended or debarred or whose principals are suspended or debarred for covered transactions. Covered transactions include procurement contracts for goods or services equal to or in excess of \$100,000 and all nonprocurement transactions (e.g., subawards to subrecipients).

Cause:

The grant administrator was not aware of the suspension and debarment certification requirement.

Effect:

Without a procedure in place to ascertain whether contractors or subrecipients are suspended or debarred from providing goods or services funded with federal dollars, the County could contract with or make subawards to parties that are suspended or debarred from doing business with the federal government.

Recommendation:

The County should develop procedures to ensure that the certification of suspension and debarment is a required document for all procurement contracts or grant awards in which federal funds are used to pay for goods or services.

COUNTY OF LOUDOUN, VIRGINIA
Schedule of Findings and Questioned Costs
Year Ended June 30, 2003

Finding:

<u>No.</u>	<u>Program</u>	<u>Compliance requirement</u>	<u>Questioned costs</u>
03-03	Emergency Preparedness (16.580)	Allowable Costs / Cost Principles	None

Condition:

The County charged the cost of certain equipment to the Emergency Preparedness grant without receiving approval from the grant administrator as to the allowability of the equipment costs under program regulations.

Criteria:

The A-102 Common Rule requires that nonfederal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

Cause:

The equipment items were purchased through the County Motor Pool, and their costs were later transferred to the Emergency Preparedness grant. The County's established policy requires that all purchases charged to the Emergency Preparedness grant must be approved by the grant administrator, but in these instances, the control was circumvented.

Effect:

Failure to obtain proper approvals for purchases of items charged to federal grants could result in disallowed costs.

Recommendation:

The County should strengthen the controls over the Emergency Preparedness grant to ensure that all purchases are approved by authorized personnel prior to inclusion as an allowable cost under the grant.

COUNTY OF LOUDOUN, VIRGINIA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2003

Finding:

<u>No.</u>	<u>Program</u>	<u>Compliance requirement</u>	<u>Questioned costs</u>
03-04	Head Start (93.600)	Allowable Costs / Cost Principles	Not determinable
	Title I (84.010)		Not determinable

Condition:

Loudoun County Public Schools (LCPS) does not maintain appropriate effort-reporting documentation in compliance with OMB Circular A-87 to support payroll costs charged to the Head Start and Title I – Educationally Deprived Children grant programs. Total payroll costs charged to the Head Start and Title I grant programs during fiscal year 2003 were \$632,641 and \$948,829, respectively.

Criteria:

Circular A-87 states that compensation of employees for the time devoted and identified specifically to the performance of a federal program’s objectives represents a direct cost chargeable to the federal award. Under Circular A-87, compensation costs must be supported by employee time sheets, employee semi-annual certifications of time worked solely on the applicable grant, or “moment in time” time studies approved by the federal government, estimating the amount of time to be allocated to applicable grants.

Cause:

The LCPS payroll for full-time employees is under an “exception reporting” system, where only exceptions (e.g., holiday, sick time, leave, overtime) are reported. There is no after-the-fact reporting of the personnel time charged to federal grants, and LCPS does not require payroll certifications.

Effect:

Personnel salaries comprise the majority of the costs charged to the Head Start and Title I grants. Failure to have an adequate process in place to ensure compliance with the employee time and effort reporting requirements could lead to the administration of the federal program contrary to laws, regulations, and the terms of the grant agreement. Further, it results in noncompliance with the requirements of OMB Circular A-87.

Recommendation:

We recommend that LCPS redesign the employee time reporting process to adequately document personnel costs as required by OMB Circular A-87. Where employees work solely on a single federal program, charges for their salaries and wages should be supported by periodic after-the-fact certifications. Where employees work on multiple activities or cost objectives, the distribution of their salaries or wages should be supported by personnel activity reports or equivalent documentation.

COUNTY OF LOUDOUN, VIRGINIA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2003

Finding:

<u>No.</u>	<u>Program</u>	<u>Compliance requirement</u>	<u>Questioned costs</u>
03-05	Mental Health Disaster Assistance and Emergency (93.982)	Cash Management	None

Condition:

The County received the Mental Health Disaster Assistance funding in a lump-sum advance as a subrecipient of the Commonwealth of Virginia. We noted that the County did not have policies and procedures that require tracking of the interest earned on advances of federal funds to ensure the interest income was used in accordance with the grant agreement or returned to the federal funding agency. Upon our request, the County calculated the interest earnings on the Mental Health Disaster Assistance funds during fiscal year 2003, which amounted to \$2,735.

Criteria:

The Fiscal Guidelines for the Crisis Counseling Assistance and Training Program, published by the U.S. Department of Health and Human Services on the Disaster Mental Health Web site, specifies that the interest earned on the grant funds must be used as additional income to the grant program.

Cause:

County personnel were not aware of the requirement to track the interest earned on advances of federal funds.

Effect:

Interest earned on funds advanced to the County for the Mental Health Disaster Assistance program could have been inadvertently used for other County programs. Additionally, such noncompliance with cash management requirements could lead to the loss of federal funding.

Recommendation:

We recommend that the County enhance its existing cash management policies and procedures to provide a means for tracking the interest earned on all grants that are funded on an advance basis. Where required by program regulations, these interest earnings should be used for achieving program objectives, or otherwise returned to the awarding entity (i.e., the applicable federal agency or the Commonwealth of Virginia).